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C O N F I D E N T I A L SEOUL 000415

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SUBJECT: UNION BRIEFS AMBASSADOR ON HISTORY, GOALS, OUTLOOK

Classified By: Amb. Kathleen Stephens. Reasons 1.4 (b,d).

¶1. (C) SUMMARY: In a meeting with the Ambassador on March 16, representatives from the Federation of Korean Trade Unions (FKTU), the more conservative of Korea's two umbrella labor unions, provided a briefing on the current status of Korean labor-management relations, discussed the umbrella union's plan to prevent layoffs, and highlighted the USFK pay cap issue. FKTU President Jang Seok-chun told the Ambassador that the FKTU was now focusing on two primary issues. The first was a dialogue-based approach to cooperating with the government to overcome the financial crisis. FKTU was part of a labor-government-business cooperative effort to alleviate the fallout of the economic downturn. The second major issue for FKTU was its opposition to the Ministry of Labor's efforts to change the law governing irregular workers. Chi Hyon-taeck, National President of the USFK Korean Employees (sic) Union, told the Ambassador that USFK's pay cap deprived Korean workers at USFK of the right to collective bargaining guaranteed by the Korean Constitution; the Ambassador noted the pay cap was Congressionally-mandated in the U.S. but that the Embassy would report his concerns. END SUMMARY.

FKTU Background

¶2. (SBU) The antecedent to the Federation of Korean Trade Unions (FKTU) was established in 1946, but the current iteration of the organization dates back to labor law revisions in 1980, which allowed for unions but mandated they be enterprise- and not industry-based. Under the 1980 revision, the South Korean government, led by authoritarian President Chun Doo-hwan, established FKTU in an effort to control the labor movement. In the late 1980s, elements of the FKTU became dissatisfied with the collusion between the union leadership and the government, and in 1990 formed a competing organization called the Korean Confederation of Trade Unions (KCTU). The KCTU views itself as the legitimate heir to the workers' struggle, and is more radical -- and often more violent -- than the FKTU. The two organizations have cooperated in the past, but they disagree fundamentally about their respective approaches to labor disputes. FKTU is now quite independent of the government, but the organization has remained close to its government roots, including with the Lee Administration. In fact, FKTU agreed, through a vote of its membership, to support Lee Myung-bak in the December 2007 presidential election, and FKTU President Jang Seok-chun accompanied President Lee to the U.S. for the April 2008

summit.

FKTU Rolls Out the Red Carpet

¶3. (C) On March 16 President Jang organized an extensive welcome and briefing for the Ambassador's courtesy call, noting that it had been five years since a U.S. Ambassador had visited FKTU headquarters. The Ambassador recalled the long history of cooperation and communication between the Embassy and FKTU, noting that there used to be a full-time AFL/CIO representative in Korea working with FKTU on labor union development. The Ambassador commented that labor unions had played an important role in Korea's democratization and said it was good to see that the FKTU continued to play a central role in Korea's democracy.

¶4. (C) Jang emphasized his objective of ensuring that foreign investors in Korea felt familiar and comfortable with Korean labor relations. Korean industry was struggling due to the global economic downturn, but Jang believed Korea would be one of the first countries to recover because of the cooperation between labor and management. Jang conceded that foreign companies worried about stability in labor-management relations, but said FKTU was working to ensure that relations remained steady. The Ambassador welcomed Jang's confidence in the Korean economy's ability to weather the crisis and noted that U.S. and Korean approaches to recovery were similar; both countries were making efforts to bring all the stakeholders together to find cooperative ways to overcome the crisis.

Current Labor Environment

¶5. (SBU) Jang, joined by half a dozen of his top management, gave a thorough, prepared briefing on the FKTU, including a breakdown of the unionized workforce and an overview of the current status of labor-management relations. According to the Ministry of Labor, the percentage of unionized workers peaked in 1989 with 19.8 percent and has steadily declined to 10.3 percent in 2006. FKTU blamed this decline in part on the increase of irregular workers. (NOTE: Irregular workers are hired under contracts of one year or less, receive lower pay, and are not entitled to the same benefits as regular workers. END NOTE.) Jang noted that the percentage of irregular workers in Korea was the highest in the developed world. The pay gap between regular and irregular workers contributed to the increasing economic polarization in Korea.

¶6. (C) The FKTU's biggest challenge was because of the continued use of the enterprise structure, wherein unions are company-based rather than industry-based. This structure was instituted in 1980 and upheld during the 1987 labor law revisions. According to FKTU, only seven percent of unions had more than 500 members, but those unions represented 72.1 percent of the unionized workforce. Conversely, 66.8 percent of unions had less than 100 members, but they only represented 7.7 percent of unionized workers. FKTU explained that this enterprise-based union structure was to blame for the volatility in labor-management relations. The system presented difficulties in all negotiations, introducing significant distrust into labor-management relations. FKTU was hoping to eliminate the enterprise-based approach but offered no detail on how it would do so.

Social Contract

¶7. (C) FKTU representatives emphasized that their goal was to strengthen labor-management relations through dialogue. The umbrella organization was working to establish a new paradigm of labor-management relations in order to boost national competitiveness. To achieve this, the union had two primary objectives. The first was to work with the

government and business to overcome the current financial crisis. The second was to reduce the number of irregular workers.

¶18. (C) President Jang noted that during the 1997 Asian Financial Crisis, companies were forced to lay off large numbers of men in their 40's and 50's, most of whom were the primary wage earners in their families. FKTU's goal was to prevent such layoffs from happening again. On January 22, FKTU and the Korea Employers Federation (KEF) held a joint press conference to propose the establishment of a tri-partite cooperative body comprised of labor, government, and management to overcome the economic crisis, and on February 23, the organization announced that it had come to an agreement. In part, the union agreed that workers in companies that are having financial difficulty would return a portion of their wages and benefits. Workers in companies facing dire economic problems would also consider job sharing as a means to prevent job loss.

Irregular Workers

¶19. (C) Under current law companies have two years to convert irregular workers into permanent employees. The Ministry of Labor, however, has proposed extending this time limit to four years, arguing that it will give companies more time to convert workers and result in fewer lay offs. FKTU opposed the revision, demanding instead that the government focus on providing subsidies to companies as an incentive for converting these workers. If the compensation gap between regular and irregular workers was narrowed, the union argued, converting these employees would be easier. Jang said FKTU understood the difficult position the government was in but extending the time limit would effectively downgrade these workers. Providing incentives to companies for converting irregular workers was a better approach, he argued.

Crisis is Deeper, More Serious Than in 1997

¶10. (C) In response to the Ambassador's query about comparisons between the current situation and the Asian Financial Crisis, Jang said the current situation was worse. In the late 1990's there were large-scale layoffs, but the export sector remained strong. This downturn was deeper and more serious, which necessitated the social pact and working cooperatively to overcome the crisis.

USFK Pay Cap

¶11. (C) The USFK Korean Employees Union (KEU) President Chi Hyon-tae, also at the meeting, raised the issue of the USFK pay cap on Korean employees' salaries. (NOTE: The pay cap is Congressionally-mandated under the Defense Appropriations Act and limits locally employed staff salary increases to the greater of raises granted to U.S. and Korean Government employees. END NOTE.) Chi said that the USFK-KEU members wanted to have the right to wage negotiations, but that the pay cap deprived workers from collective bargaining, a right guaranteed by the Korean Constitution. The Ambassador thanked Chi for raising the issue, noted her understanding that the pay cap provisions were Congressionally mandated, but said the Embassy would ensure Washington was aware this continued to be a concern to USFK-KEU members. She said that both the Embassy and USFK, along with American businesses in Korea, wanted to be the best possible employers, and it was helpful to hear FKTU's views on this issue.

Comment

¶12. (C) Although only around 10 percent of the Korean labor force is unionized, labor unions are a powerful influence in Korean economic scene, often at the receiving end of complaints from foreign and domestic businesses. Some of this is due to the "consensus" nature of Korean negotiations, but the largest blame is, as our FKTU contacts mention, due to workers being organized at the company-level, rather than at the industry-level. There have been several efforts to reform this cumbersome system, but none have had any traction because individual unions will not give up their authority.

STEPHEN